

Property Tax and School Funding in Utah

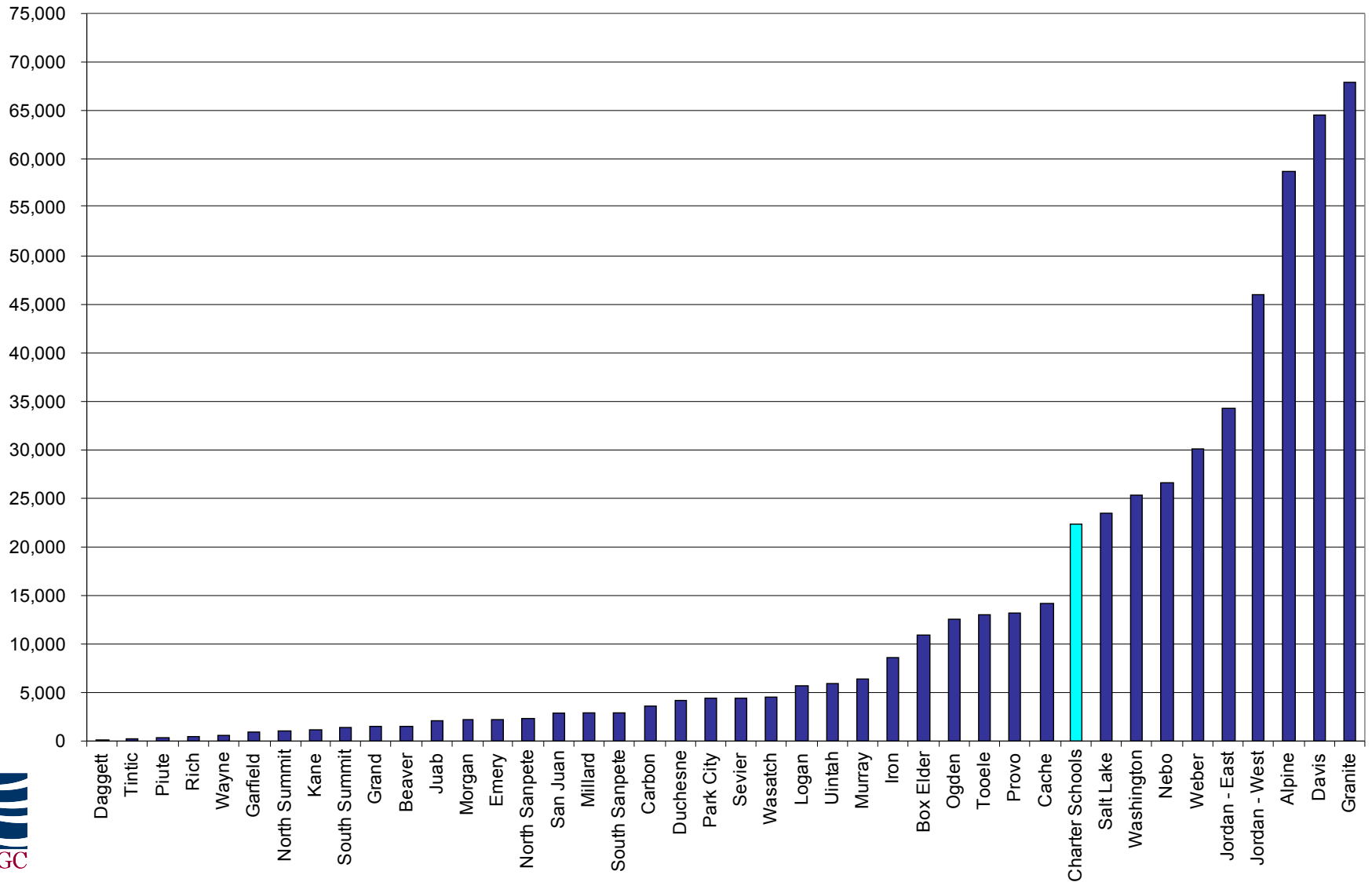
Prepared for:

Utah Legislature
Revenue and Taxation Interim Committee

June 5, 2008

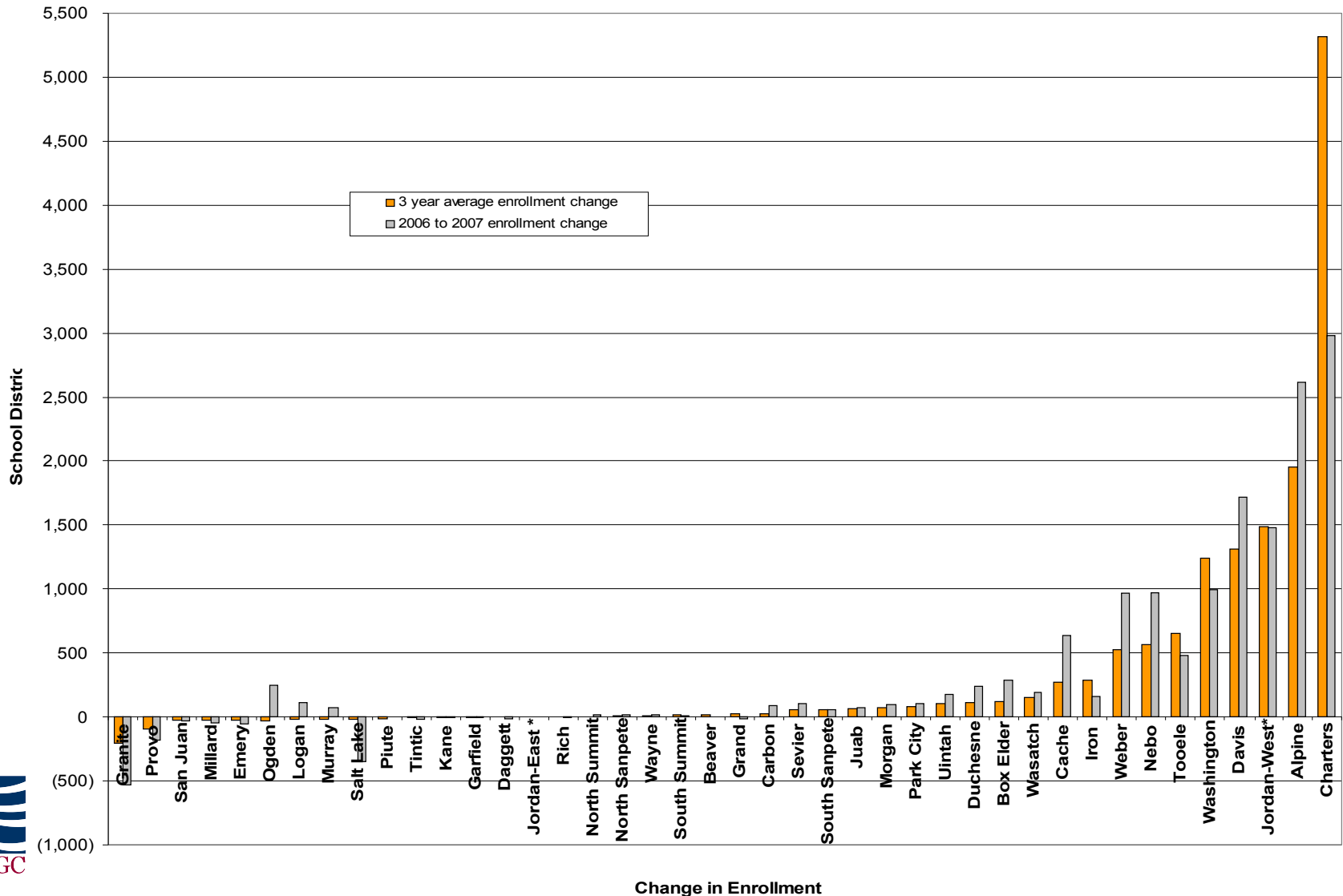
Basic School Needs

Total Enrollment



Basic School Needs

Enrollment Growth



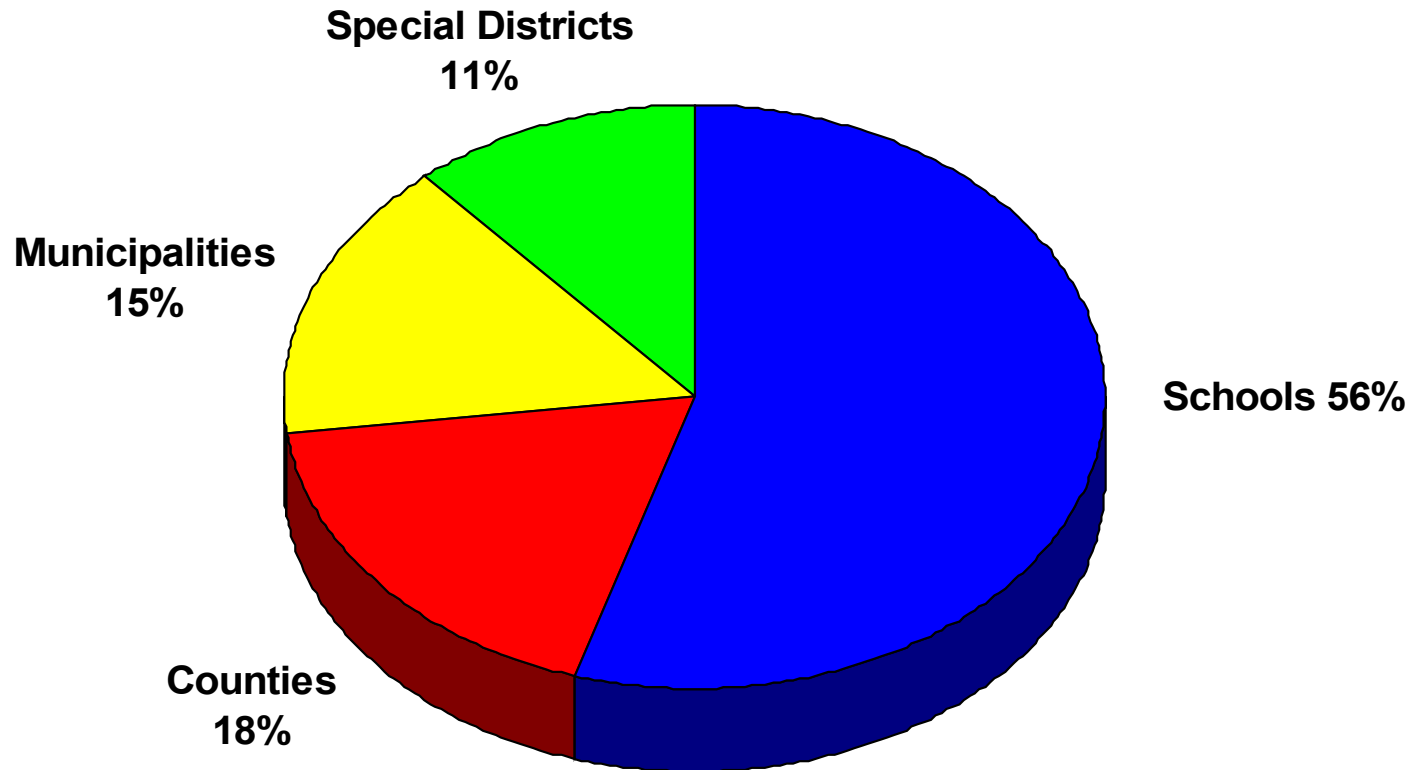
How is Utah Public Education Funded?

Major Revenue Sources:

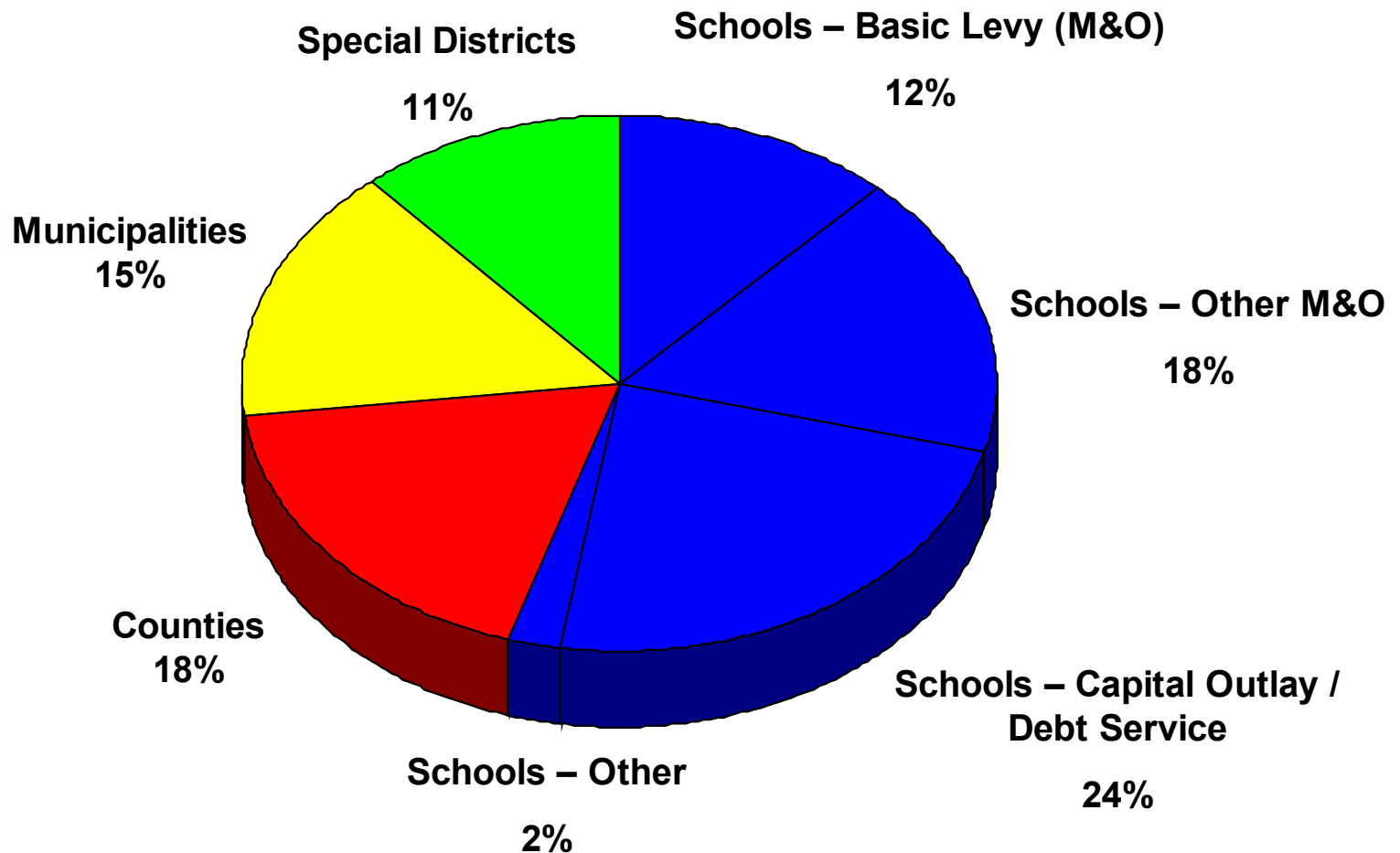
- Income Taxes (\$2.6 billion)
- Property Taxes (\$1.1 billion)
- Federal Funds (\$0.4 billion)
- Dedicated Credits and Other (\$0.06 billion)

Fiscal year 2007-08 estimates

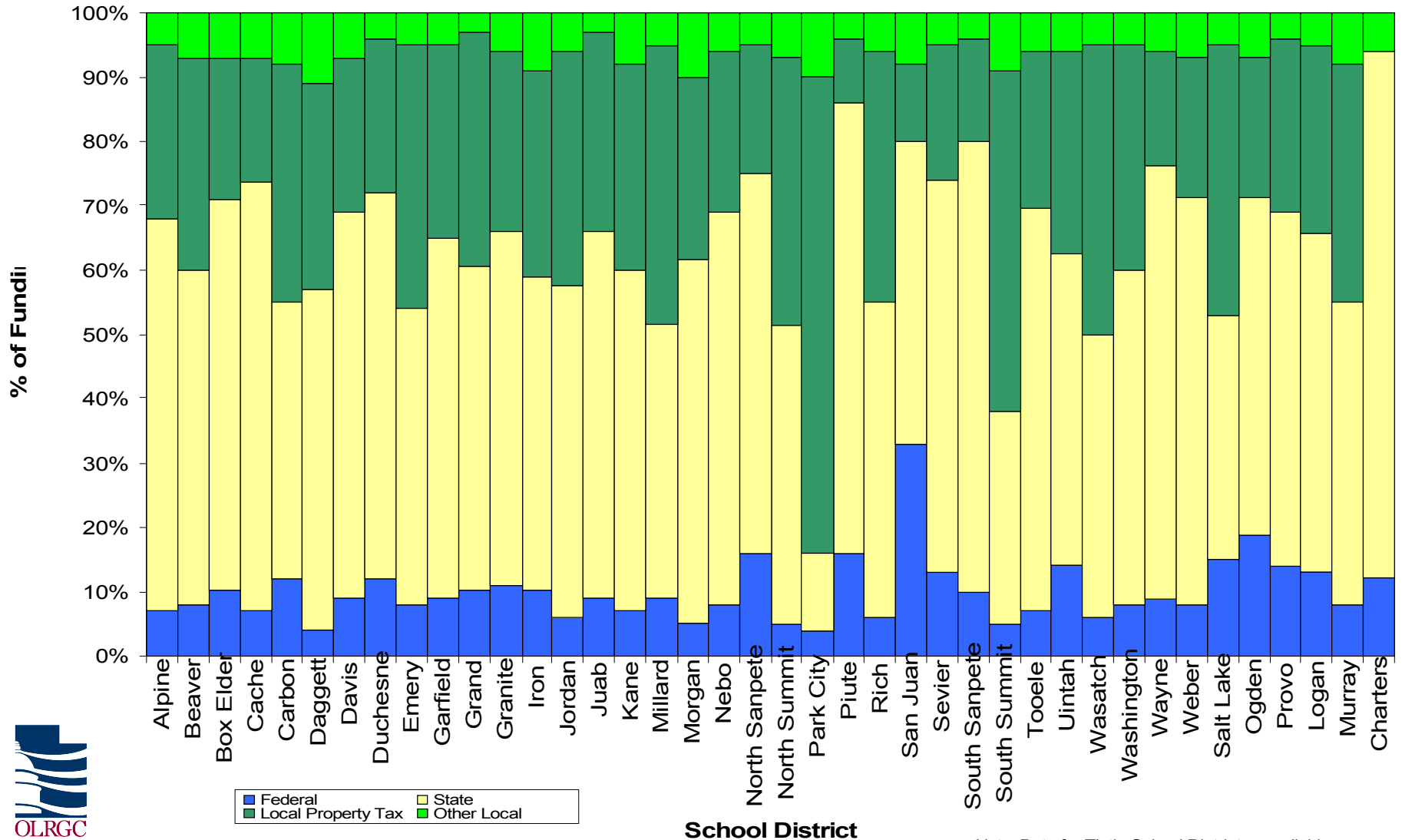
School Property Tax as a Percent of Total Property Tax



School Property Tax Types as a Percent of Total Property Tax



Major Revenue Sources by District



Property Tax Resources Vary By District

- Some districts have greater ability to generate revenue through property tax than others because student populations do not align with the allocation of property values throughout the state
- Why do school district property tax bases vary?
 - Overall fair market value differences in different areas
 - Mix of property types (commercial, residential, agricultural, etc.)
 - Exemption / valuation differences among property types
 - Primary residences receive 45% exemption
 - Agricultural properties valued based on agricultural use, not fair market value
- Charter schools have no property tax base and cannot impose a property tax

Impact of Property Tax Base on Revenues

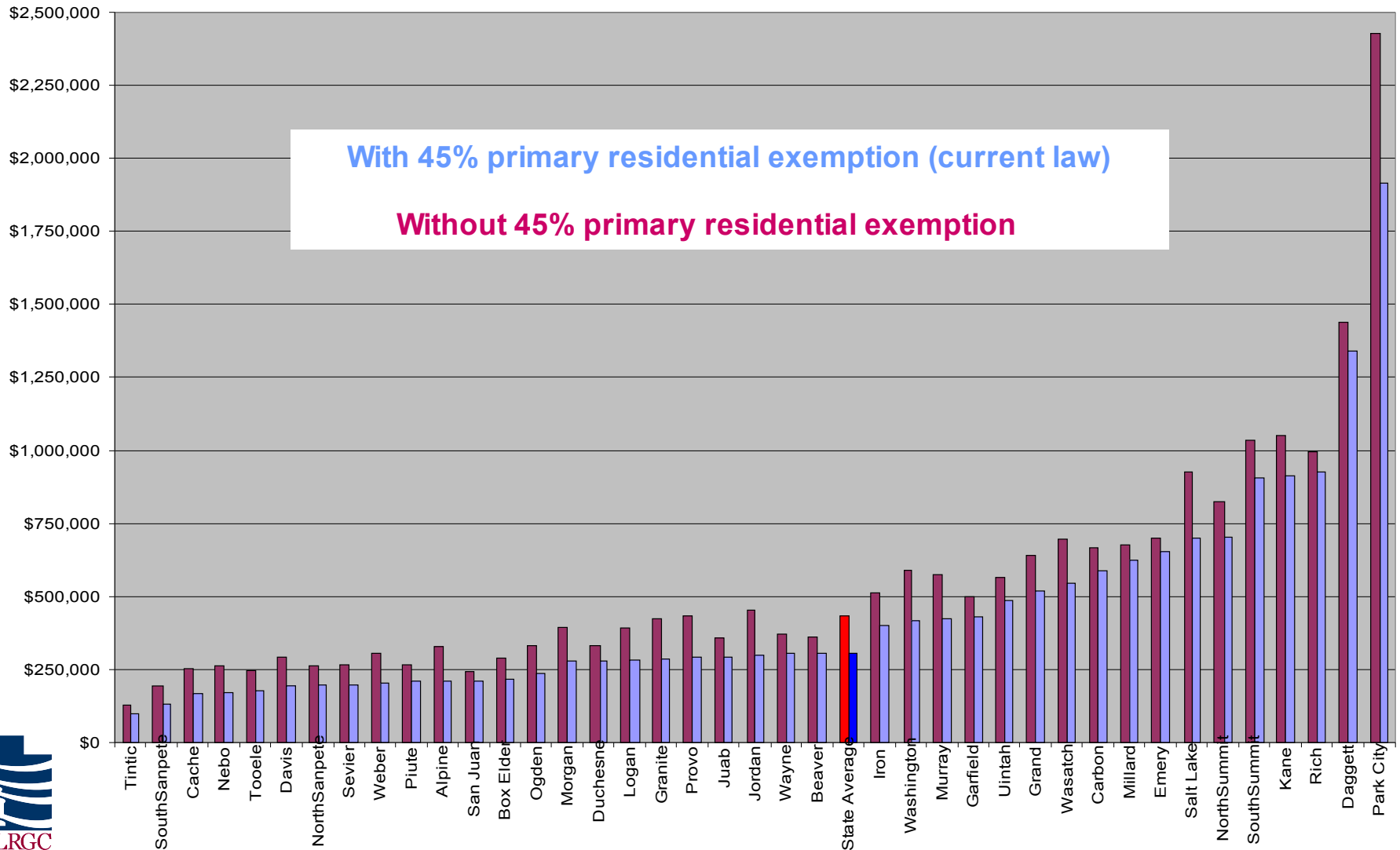
Suppose 3 school districts each need to raise \$1 million per year. The districts each have a different tax base from which to generate the \$1 million. To generate the same amount of total revenue, a taxpayer with an identically valued home in District A will pay five times the amount of tax the taxpayer in District C pays, because District C is able to generate the same revenue at a lower tax rate due to its larger tax base.

	<u>District A</u>	<u>District B</u>	<u>District C</u>
Tax Base	\$1,000,000,000	\$2,000,000,000	\$5,000,000,000
Needed Revenue	\$1,000,000	\$1,000,000	\$1,000,000
Rate Required to Generate Revenue	0.001000	0.000500	0.000200
Tax impact on \$250,000 primary residence	\$138	\$69	\$28

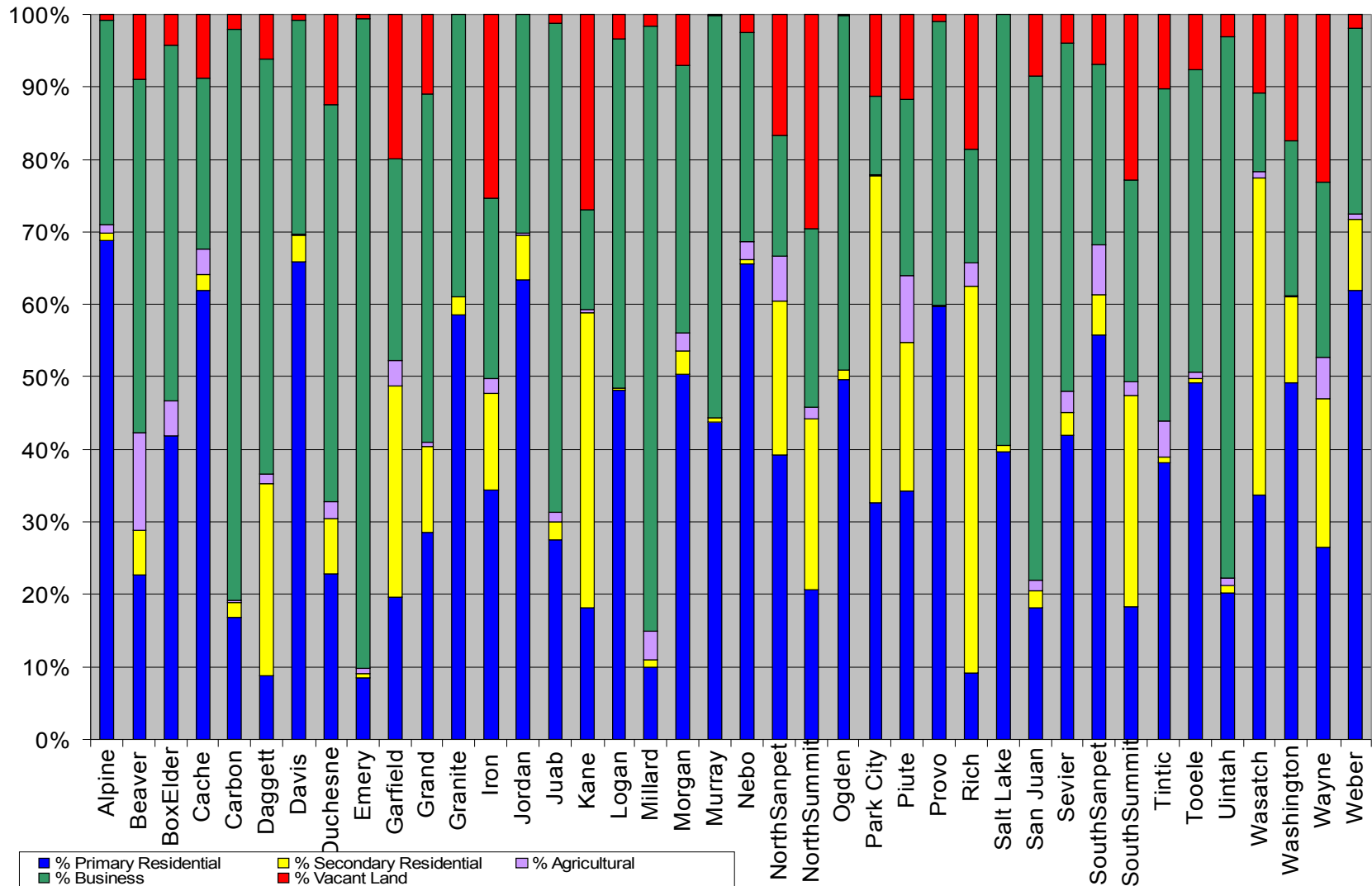
Because school districts have different sized tax bases and varying numbers of students to serve, it can be difficult to directly compare taxing capacity among school districts. One method of comparison is to compute the tax base per enrolled student.

Total Enrollment	8,000	4,000	2,000
Tax Base per Enrolled Student	\$125,000	\$500,000	\$2,500,000

Taxable Property Tax Base per Student With and Without Residential Exemption



School District Taxable Property Tax Base Composition

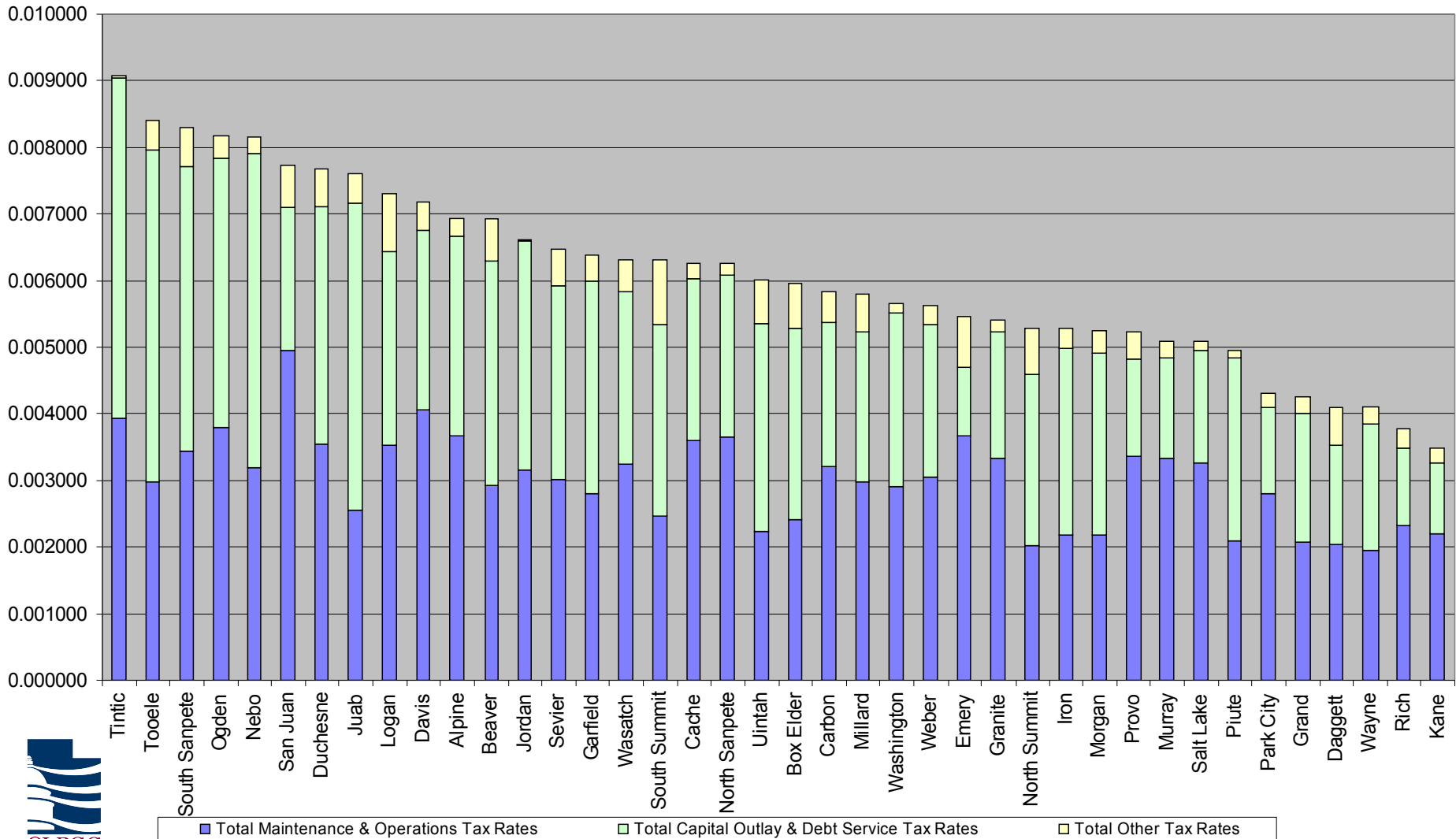


School District Property Tax Levies

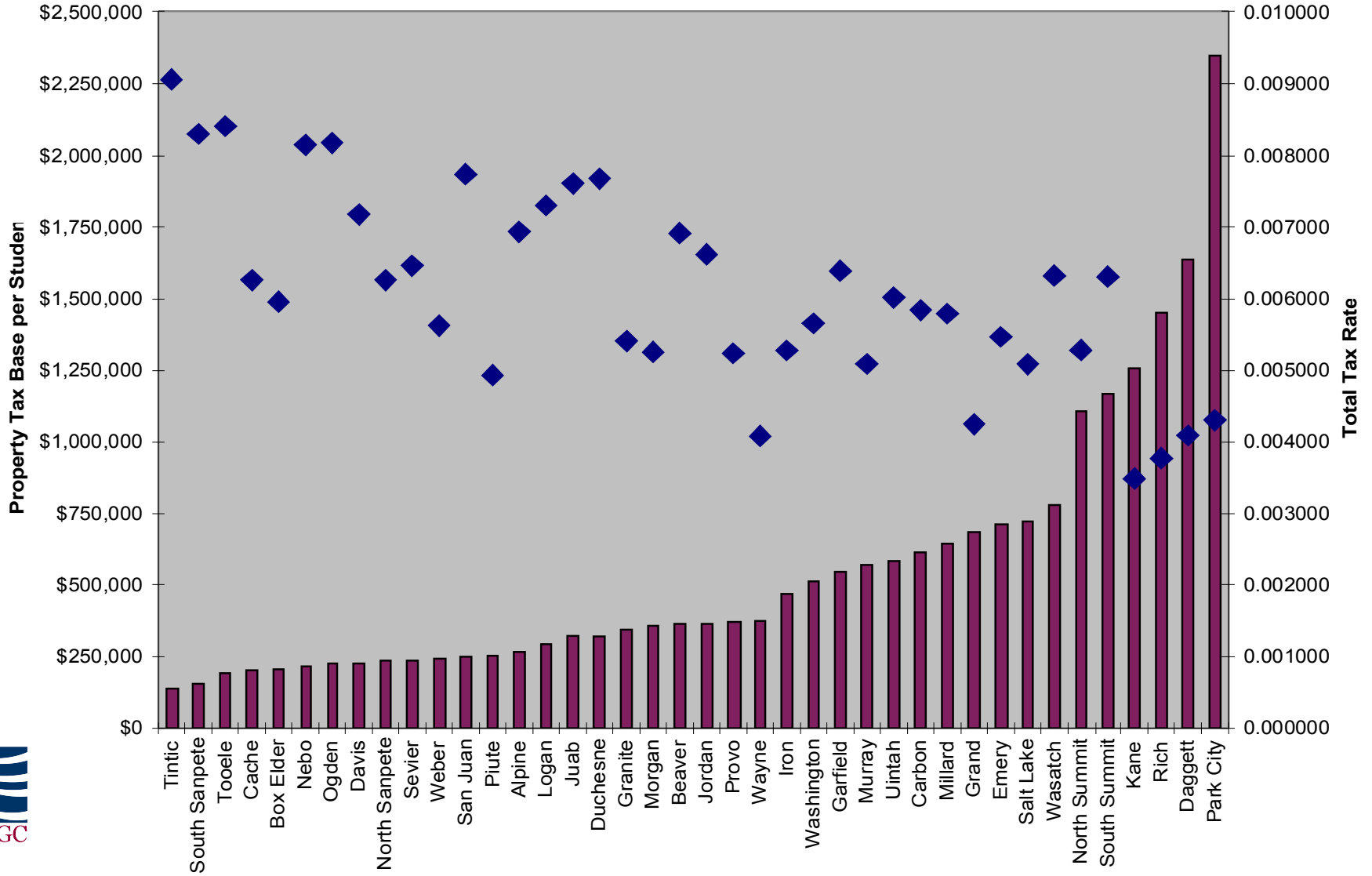
- Operations Levies
 - Basic levy
 - Voted leeway
 - Board leeway
 - K-3 reading
- 10% of basic levy
 - 10% of basic levy can be used both for certain operations purposes (textbooks and supplies) and for capital outlay / certain debt service purposes
- Capital Outlay & Debt Service Levies
 - Debt service
 - Capital outlay
 - Voted capital outlay (not currently imposed)
- Other Levies
 - Special transportation
 - Recreation
 - Judgment
 - Tort Liability
 - Federal impact aid (not currently imposed)

Utah School Funding

Property Tax Rates



Property Tax Base per Student and Total Tax Rate



Current School Funding Equalization

- Utah's basic program (WPU) in the operations portion of the public education budget is often seen nationally as a model of an equitable funding system
 - Similar students funded similarly, no matter which district or charter school the student attends
 - Different types of students are funded at greater or lesser amounts (for example, less for a kindergarten student, more for a special education student)
 - Because of the equalized basic program, a large portion of the maintenance and operations budget for schools is equalized
- Schools can also generate revenue by levying certain property tax levies as authorized by statute
 - Some state funding minimally equalizes certain other property tax levies (board/voted leeway with guarantees, capital outlay funding with foundation program) but not near the extent of the basic program equalization
- School districts and charter schools also receive additional state funding from categorical programs (below-the-line programs)

The Weighted Pupil Unit (WPU)

- The WPU is used to determine the cost of the basic school program on a uniform basis for each student
 - 1 WPU = 1 student in average daily membership (ADM)
 - Students in Kindergarten receive 0.55 WPUs
 - Specific programs generate additional WPUs, generally based on student qualifications (special education, technology education, etc.)
- The Legislature annually establishes the value of the WPU
 - Current (FY 2008) WPU Value = \$2,514
 - Districts and charter schools receive basic program funding based on their total number of WPUs
 - Hypothetical example:
 $1,000 \text{ WPUs} \times \$2,514 = \$2,514,000$ (Basic Program Only)
- School districts and charter schools receive additional funding from the minimum school program's categorical programs (a.k.a. below-the-line programs)

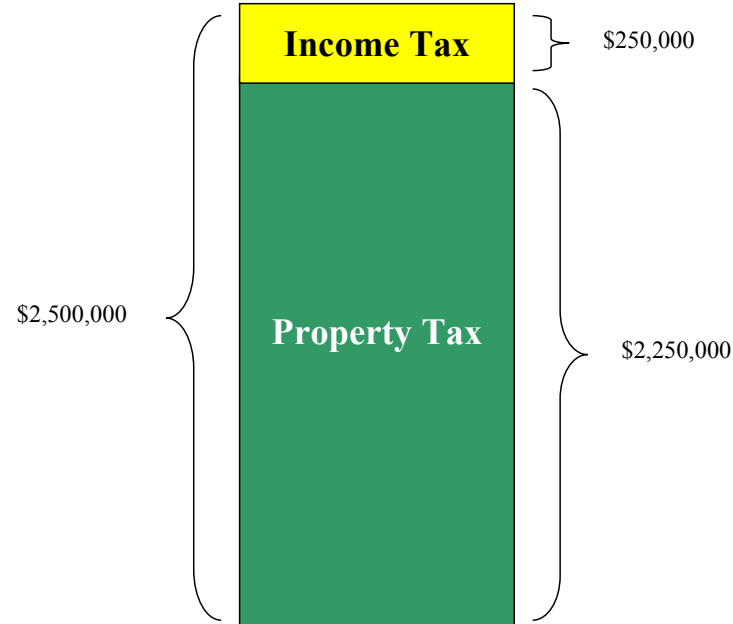
How is the Basic Program Equalized?

Hypothetical District

1,000 WPUs x \$2,500 per WPU = **\$2,500,000 basic program amount**

Property tax base = \$1,500,000,000 x basic levy (.001500) = **\$2,250,000 property tax revenue**

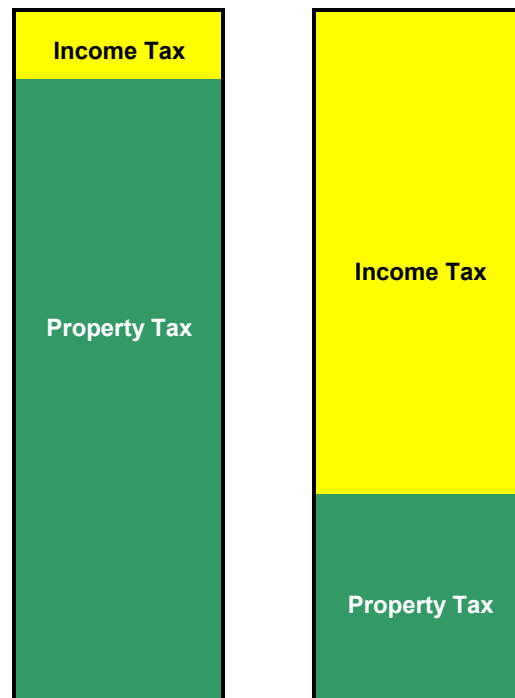
\$250,000 Income Tax (Uniform School Fund)



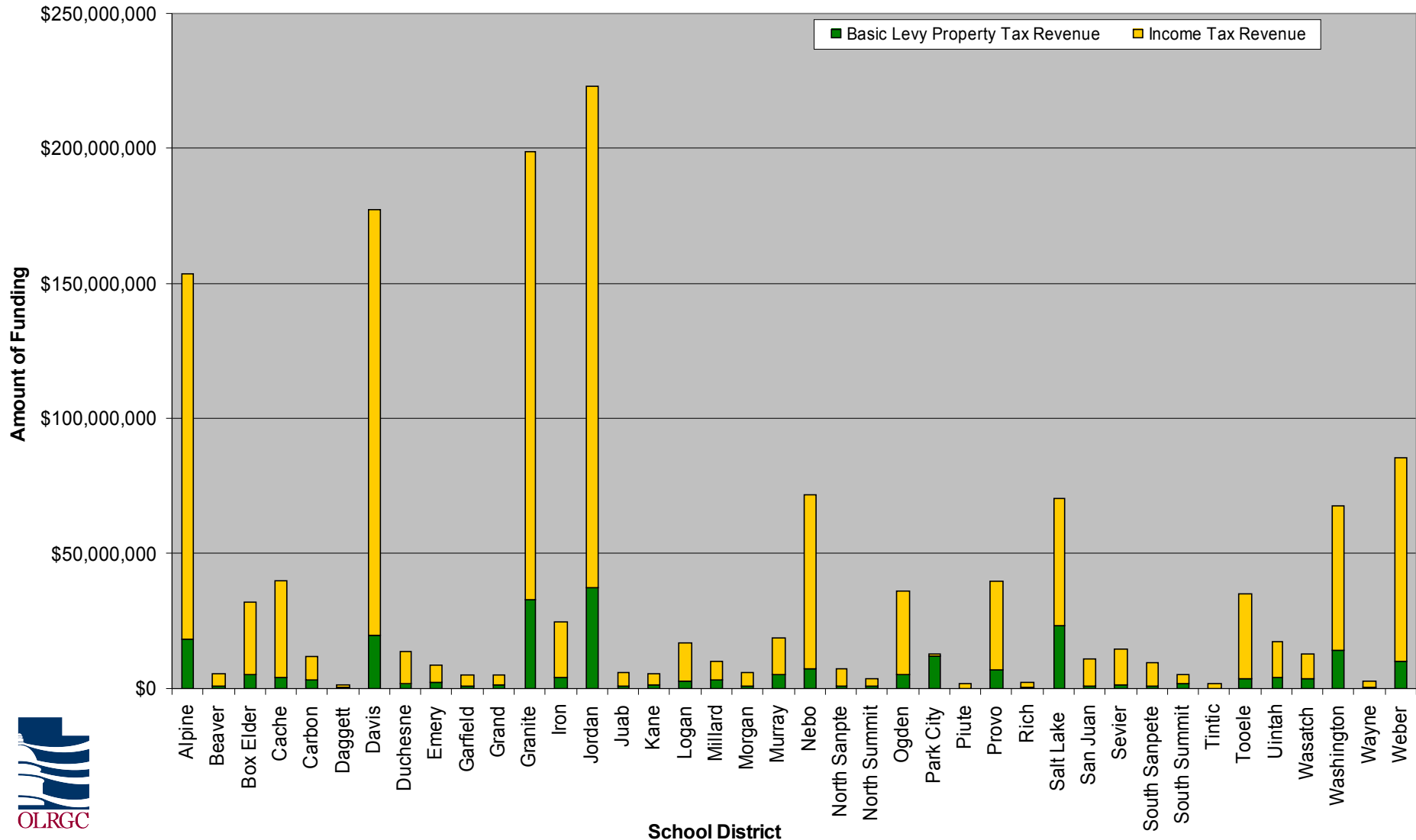
Basic Program

Two Hypothetical School Districts

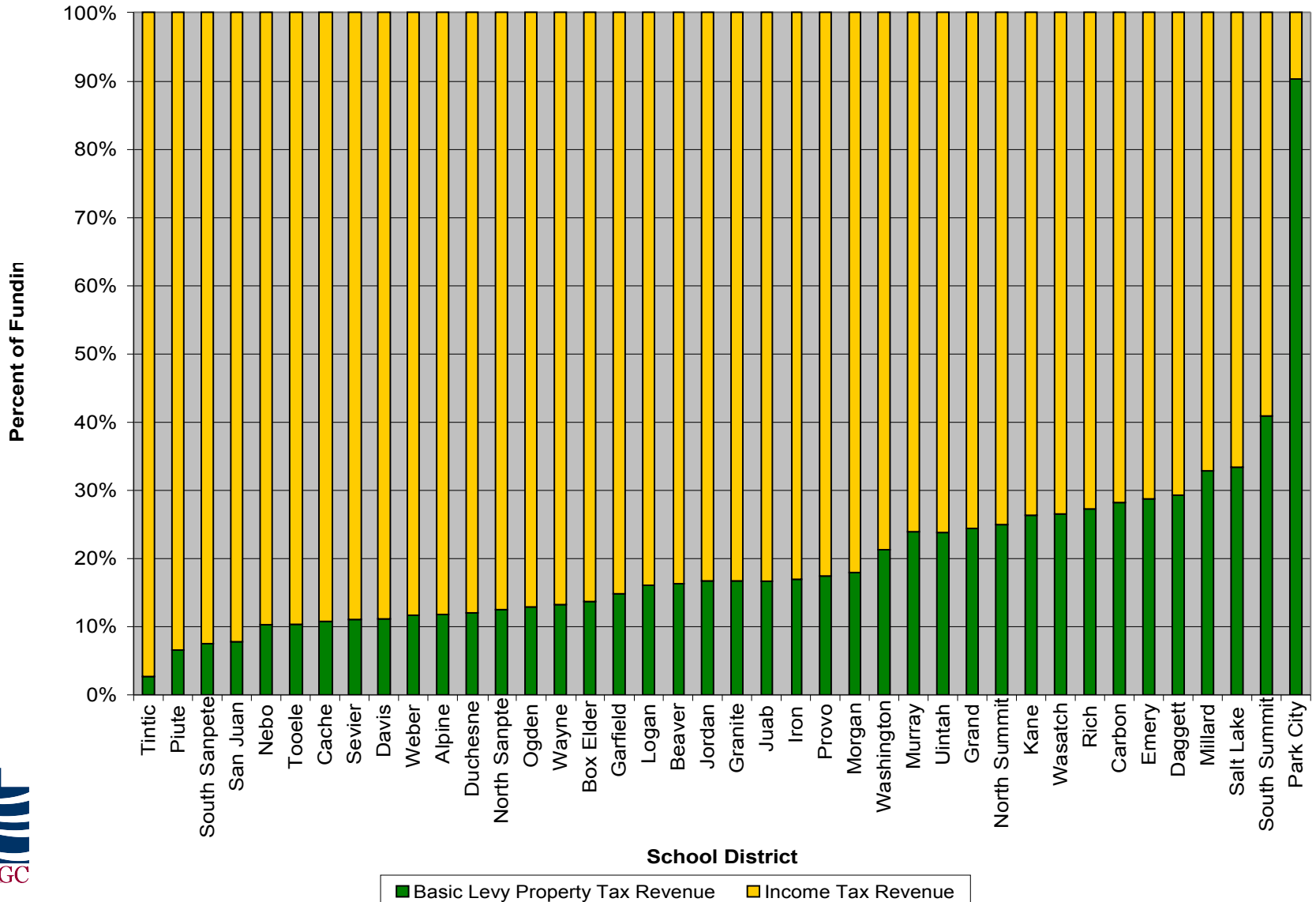
	District A	District B
Value of WPU	\$2,500	\$2,500
WPUs	1,000	1,000
Basic program statutory entitlement	<u>\$2,500,000</u>	<u>\$2,500,000</u>
Net Taxable Value (Property Tax Base)	\$1,500,000,000	\$500,000,000
Basic levy (Tax Rate)	0.001500	0.001500
Basic Levy Yield (Property Tax Revenue)	<u>\$2,250,000</u>	<u>\$750,000</u>
Allocation from Uniform School Fund	\$250,000	\$1,750,000



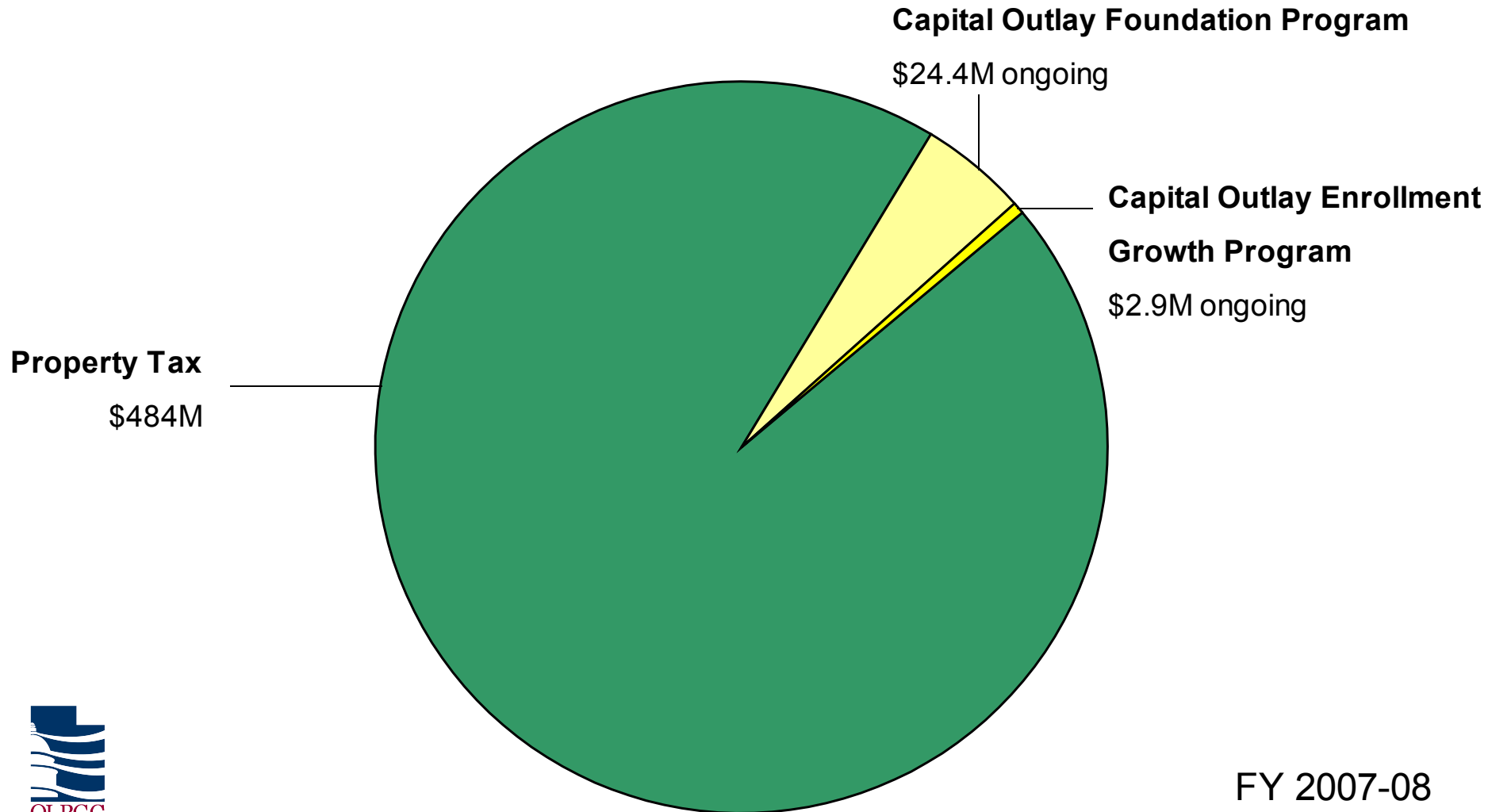
Basic Program Amounts



Basic Program Funding Source



School District Capital Outlay Funding Sources



School Funding System Relies on Accurate Property Values

- Failure to assess properties at fair market value distorts the allocation of school funds
 - With the truth-in-taxation certified rate process, undervaluation of properties in one area causes higher taxes statewide through an increase in the certified rate for the basic levy
 - In addition to basic program funding, other state funds are also tied to property tax values per student, including voted/board leeway guarantees and capital outlay foundation program

2008 General Session

School Property Tax Equalization Bills

- **SB 2 – Charter Schools**
 - Requires school districts to provide a portion of revenue from certain property tax levies for charter school students residing within the district boundaries
- **SB 48 – School District Capital Outlay**
 - Requires a partial equalization of the capital outlay levy within Salt Lake County

Theoretical Equalization Continuum

Who should pay for school costs?

User Fee

Impact
Fee

District-wide
Equalization

County-wide
Equalization

Statewide
Equalization

Only parents
of children in
schools

Owners of
new homes
and new
businesses

All property owners
within school
district

All property owners
within a county (same
as district in all but 7
counties)

Taxpayers
statewide